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SECOND CLASS

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Target president and ceo Robert Ulrich to vendors: 'You're going to hear the word 'together' a lot.' (DSN photo)

Upbeat Target Honors Vendors as Partners

By Tony Lisanti

MINNEAPOLIS, Minn. — Over 1,500 vendors crowded the Radisson Hotel here recently for a well-choreographed program to celebrate their partnership with Target Stores, which also used the event to promote itself as the nation's "premier upscale discounter."

"You are going to hear the word 'together' a lot," chairman and ceo Bob Ulrich said. "At times it might be called something else—cooperation or friendship. However, it's

(Continued on page 38)

See Editorial, Target Photos—pages 6, 8

Caldor, Venture Profit From Closer Relations

Chains Benefit from Sharing New Ideas, Experience

By Don Longo

NEW YORK — Growing synergy between Caldor and Venture is adding vitality to the merchandise mix at each of the large regional discount chains operated by the May Department Stores Company.

Yet, company officials, at May's first appearance before the New York financial community in two years, insisted that a merger of the headquarter operations of the two discounters is not in the offing.

"We have no plans for combining any of our department store or discount store divisions," said Thomas Hays, president, who added that Caldor and Venture will equally split about 30 percent of May's planned five-year, $3.5 billion capital expenditure program. The remainder will be used to expand the strong 14-chain department store division, including Lord & Taylor, Foley's, May Company, Hecht's, and others.

Though not in attendence, Caldor's top two executives—chairman Don Clarke and president Marc Balmuth—were given credit for making substantial progress toward improving results at the Northeast discounter.

"When we bought Caldor [in October 1986 as part of May's takeover of Associated Dry Goods], we had never seen a sorrier retail organization," said Hays, a former chairman of Venture.

In the fiscal year just ended, Caldor's sales rose just 4.8 percent to $1.57 billion. Operating earnings were down 10.7 percent to $50 million, but were affected by a LIFO charge of $9 million in 1988 compared to a $6 million charge in 1987. Hays claimed

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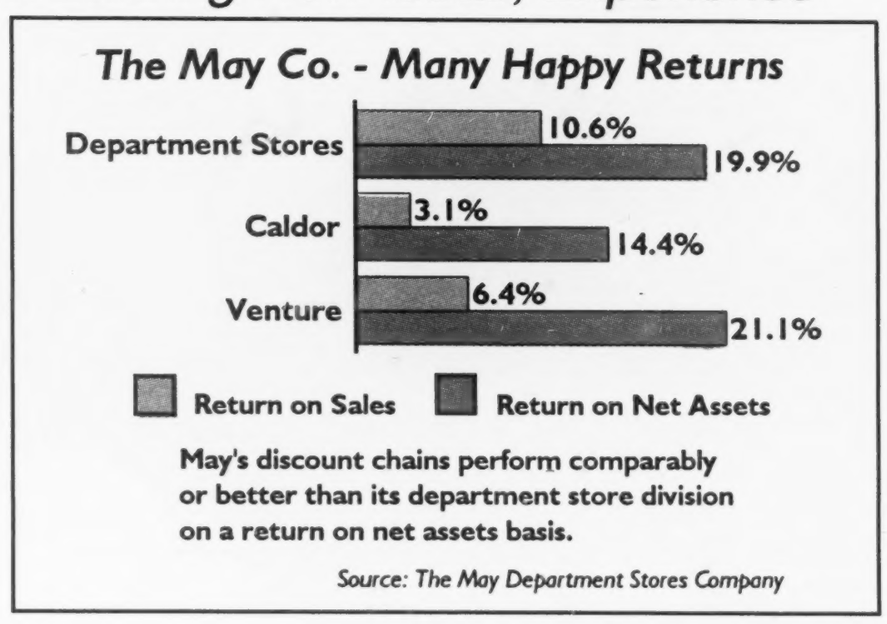

Auchan to Clothe Chicago Hypermarket by Year-End

By Arthur Markowitz

BRIDGEVIEW, Ill. — Auchan will transform its new food and hard goods combination store here into a typical hypermarket when it adds a 30,000-square-foot apparel department by the end of this year.

That Auchan would open a 130,000-square-foot store in this Chicago suburb this month without an apparel department (see *DSN*, May 8, page 7) demonstrates the $7.5 billion French retailer's willingness to experiment, to tailor stores to specific markets while making the long-term investment to learn more about American retailing.

Auchan debuted in the United States last fall with a 230,000-square-foot full-line hypermarket in Houston (see *DSN*, Oct. 24, 1988, page 1) that included apparel and such other categories as tires and major appliances which aren't being added to the Bridgeview

(Continued on page 38)

Inside Chicago's first hypermarket are Christian Clerc-Batut, president of Auchan parent, Midfield/Foodfield, and Jacques Marcelin, president and ceo, Auchan Group. (DSN photo)

K mart, CBS to Launch Promo Blitz

Mammoth Sweepstakes Tied to Network's Premiere Week

NEW YORK — K mart has gone prime time!

The nation's largest discounter has joined with CBS for a national sweepstakes promotion tied to the network's new program schedule in September.

Both K mart and CBS hope the promotion, which will reach 72 million households, will attract younger participants, ideally the under 35 market. CBS, the third ranked network, believes the promotion will generate tremendous awareness for its new programs and increase its ratings. K mart hopes to boost traffic and offset the huge promotional efforts of Sears' switch to an everyday low price strategy.

The game promotion will be launched the first night of CBS' premiere week in mid-September and run for three weeks during all day parts. It will be promoted on CBS Television, CBS radio, national magazines including *People* and *Time*, daily newspapers and K mart's circular, which will feature a four-page insert with the game details and the new CBS program lineup.

Acccording to Jerry Habeck, K mart's director of advertising, all the discounter's 2,200 stores will participate. In-store signage will include full color center aisle banners pro-

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Apparel:

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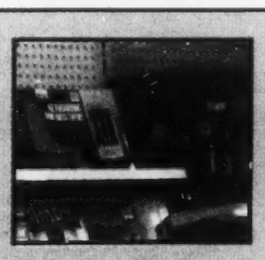

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MS JEANNE LONG
CONGRESSIONAL INFOR SVC 120
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MARKETWATCH

Zayre Spins Off Wholesale Clubs as Waban

FRAMINGHAM, Mass. — Zayre Corp. has begun its restructuring by declaring a special $3.50 cash dividend and spinning off Waban Inc.—the new firm composed of 22 BJ's Wholesale Clubs and 49 HomeClub units—to its shareholders. Zayre's next step is to complete the acquisition of the 17 percent minority interest in TJX Cos. that it doesn't own, thereby becoming an apparel specialty retailer with 313 T.J. Maxx stores, 511 Hit or Miss units and the Chadwick's of Boston catalog. Zayre plans to change its name to TJX Cos. at a June 20 stockholders meeting.

Sears Catalog Division to Move First

CHICAGO — Sears catalog division will be the first operation to relocate from Sears Tower when about 650 catalog merchandising and advertising employees move this fall to the former Allstate Insurance Co. headquarters in suburban Skokie, Ill. Other catalog operations will move later this year or early next year to the three-story structure Sears has owned since 1951. The catalog group's move isn't related to the relocation of the Sears Merchandising Group. Studies are underway to determine the best site for that operation, executives said.

Burlington Coat Makes Bid for Dry Goods

BURLINGTON, N.J. — A Burlington Coat Factory plan to buy the five stores and assets of bankrupt apparel specialty retailer The Dry Goods for $10.8 million is due to be presented at presstime to the federal bankruptcy court in Camden, N.J., handling the case. The court will decide among all bids for The Dry Goods, including the retailer's own reorganization plan. The Dry Goods filed a Chapter 11 petition in November 1988 when it had eight stores, stating it wanted to reorganize and maintain its business.

Child World to Install Satellite Network

AVON, Mass. — Child World plans to install a $2.1 million satellite communication network by this fall. The Tridom SKYNET Clearlink VSAT (very small aperture terminal) network will connect the 175 Child World and Children's Palace stores in the Northeast and Midwest due to be operating by September with a shared hub station in New York City. That facility will be connected to the retailer's host site via Tridom parent AT&T's DATAPHONE digital telephone service.

Price Opts for One-Time Cash Dividend

SAN DIEGO — The Price Co. has called off its planned preferred stock dividend in favor of a one-time $1.50 per share cash dividend. The payout will total about $75 million or approximately 14 percent of the firm's net worth. The special cash distribution "is a simpler, more direct approach" to paying a dividend, said Giles Bateman, executive vice president and chief financial officer.

Business Newspaper Cites Ward's Brennan

CHICAGO — Montgomery Ward chairman Bernard F. Brennan has been named *Crain's Chicago Business* 1988 Executive of the Year. As the second retail executive to be honored since the program's inception in 1983, the award recognized Brennan's leadership of the $3.8 billion management buyout of the company last year and its subsequent revamping into a $4.9 billion specialty retailer that reported $139 million in profits.

Pflug Named Consumers Distributing Head

EDISON, N.J. — Semi-Tech Microelectronics has named John Pflug president of its Consumers Distributing (U.S.) division, succeeding Alan Kane, who resigned. Pflug, previously executive vice president, has been with the 89-store Northeast cataloger for 10 years.

GEnie Connects 150,000 Subscribers

ROCKVILLE, Md. — The GEnie interactive computer information and shopping service has reached the 150,000 subscriber level, making the General Electric Co. operation the nation's second-largest online service. GEnie has also cut its prime time access charge almost in half to $18 an hour and reduced its non-prime time rates, depending on baud speed of the modem. The new rates are designed to make GEnie more competitive with CompuServe, the largest online service.

Peter Luria Becomes Prez at L. Luria

MIAMI LAKES, Fla. — L. Luria & Son has promoted executive vice president Peter Luria to president and chief operating office. He succeeds his father Leonard Luria, who founded the 47-unit Florida cataloger and continues as chairman and chief executive officer.

ALCO Files for Chapter 11; To Close 52 Units in 10 States

By Mary Ellen Kelly

ABILENE, Kan. — Duckwall-ALCO filed for Chapter 11 protection this month and will close 52 of its 151 units as part of its restructuring. Competition, mostly from Wal-Mart, resulted in a $10 million loss at the 52 stores last year.

The filing occurs nearly a year after the chain realigned its management team when chairman Robert Soelter retired. The bankruptcy also comes about four years after it completed a management-led leveraged buyout.

Glen Shank, president of the company since last June, attributed the discounter's current financial problems to various competitive and market conditions.

In a published statement, Shank cited, "the emergence of heavily financed competitors . . . the setbacks suffered in the economies of rural areas and small towns, and the heavy debt structure of the company," as factors making the filing necessary. "We determined this was the best approach to ensure the health of the entire Duckwall-ALCO organization."

The company has secured a $76 million revolving line of credit through Jan. 1, 1990, from General Electric Capital Corp., according to ALCO's attorney, John Donner of Stinson, Mag & Fizzell, Overland Park, Kan. The filing listed ALCO's total assets at $152.2 million and total liabilities at $149.5 million.

Donner said that ALCO has been losing money for the past few years, "principally due to losses at these 52 stores. The stores to be closed lost $10 million last year alone . . . This has been generally attributed to competition from Wal-Mart," he added.

Another four stores might be closed, depending on whether lease agreements can be negotiated for a shorter period of time, Donner said.

The store closings will be scattered throughout 10 states: Arkansas, Colorado, Illinois, Iowa, Kansas, Mississippi, Nebraska, New Mexico, Texas and Wyoming. No stores will be closed in South Dakota, nor its sole Minnesota location.

Among the closings will be all six of its Wichita stores, both of its Topeka units, and three of its four Colorado Springs locations.

The restructuring also includes plans to enlarge the staff, both in the ongoing stores and the general office.

Merchandising changes will also be made to improve the discounter's position. Details of these changes were not available at presstime.

The closings involve many of the stores acquired from three regional chains, David's in Wichita, the Hornsby chain in Illinois, and the Sterling/Magic Mart chain in Mississippi and Arkansas, according to published statements from ALCO.

K mart's Antonini Honored at Gala To Benefit Retailing School in Israel

NEW YORK — More than 1,700 retail industry executives, business associates and supporters of Hebrew University were on hand to this month to honor Joseph E. Antonini, chairman, president and chief executive officer of K mart Corp. Antonini accepted the American Friends of Hebrew University's National Scopus Award at a formal dinner at the New York Hilton on May 2.

Chaired by CBS Inc. president and ceo Laurence A. Tisch, the dinner helped raise funds for the establishment of the K mart International Center for Retailing and Marketing at the Hebrew University of Jerusalem. Dr. Henry A. Kissinger was the guest speaker.

Antonini was honored for "outstanding business and personal accomplishments as well as his many years of involvement in higher education." The Scopus Award, named for Mount Scopus, where Hebrew University's first cornerstones were laid in 1918, is the highest honor conferred by the American Friends of Hebrew University.

The K mart Center for Retailing will:

- Conduct applied and basic research and develop case studies, simulations and business games;
- Experiment with new approaches to the teaching of retailing and marketing for both undergraduates and M.B.A. students, as well as business and retail managers;
- Provide an international meeting ground for retailing and marketing experts from both academia and business;
- Serve as a resource center to learn about and test innovative retailing and marketing ideas from around the world.

"We envision enormous opportunity to work with the International Center for Retailing and Marketing to produce professionals for our industry," said Antonini. More than ever, we must, as individuals and as companies, give a higher priority to elevating the educational process."

Antonini concluded, "It is our hope that we will be able to generate the experts necessary to run our businesses in the 21st century and it is our hope that by the cooperation of faculty, students and retailers themselves, we inspire the cooperative spirit necessary to be generalists and necessary to really make our businesses a success. It is the spirit that will carry us to greatness in our commerce, in our communities and in our country."

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After LBO: Bradlees on Track with New Store, Ads

By Mary Ellen Kelly

MERIDEN, Conn. — Bradlees appears alive and well: opening its first new unit since its leveraged buyout a year ago and reporting a whopping 49 percent increase in annual operating profits.

The new store here, Bradlees' only planned opening for 1989, will serve as a blueprint for nine stores to be remodeled this year.

The chain, which just last year pared operations to just 131 stores by selling or closing 35 units in its southern tier, has also launched a new broadcast advertising campaign.

Bradlees longtime broadcast advertising spokeswoman—"Mrs. B." has been shelved. A new series of commercials are now being aired with actors that personify different facets of the Bradlees shopper.

The new TV commercials are the result of a nine-month research project to determine the traits of typical Bradlees shoppers and find out their reasons for shopping at the chain.

Cutbacks in advertising last year contributed to the nearly 50 percent gain in 1988 operating profits, noted spokeswoman Eilene Goreman. Profits reached $84.9 million compared with $57 million in 1987 and 56.6 million in 1986.

Goreman said that last year the chain, "reduced the number of pages in our brochure over previous years," but she would not say how many or what percentage of pages were cut, nor to what extent the cut aided profits.

The Meriden, Conn., Bradlees store opening debuted the chain's first layette department (above) and enclosed consumer electronics area. (DSN photos)

Profits were also boosted by a 2 percent sales gain—and a 6 percent gain in comparable store sales, she said. Sales were $2.107 billion last year up from $2.064 billion in '87.

Bradlees said that increased sales in high margin categories added to the earnings gain. Sales in infants' and children's were strong and profitable, prompting Bradlees to create a new layette department in the Meriden store, that will be added in future and remodeled stores, noted Norm Chalphin, vp of Bradlees stores.

"The children's business is leading in sales of both hard and soft goods," said Chalphin, "and we plan to capitalize on this sales and gross margin opportunity." The gross margin on children's merchandise is among the highest for the store.

The layette department has juvenile furniture, crib sheets, teething toys, bottles, some infant clothing and other products for a newborn.

Women's ready-to-wear and intimate apparel lost space to create the 1,200-square-foot area.

By taking merchandise out of children's wear and putting it into layette, the chain is able to add more apparel to boys' and girls' clothing.

Bradlees has also instituted a new gift-with-purchase test chainwide, said Fred Gelfand, vice president of marketing. Each time a consumer buys items valued at $100 or more from the list of layette goods, they will receive a gift basket filled with items needed by newborns. He estimated the basket has a $25 retail value.

The Meriden store is the first Bradlees to establish a single entrance and cashier for the CE department. New and remodeled stores will gradually adopt the new CE configuration.

In addition to enclosing the CE department, Chalphin said the chain also tried to "give it a more open look," by bringing the glass display cases out further to the aisle. New red and black national brand name signs line the back wall of the department to draw people to the area.

While the CE department does not make use of sensors or detecting devices, the single narrow entrance and exit is expected to reduce shrink.

Bradlees will also move ahead with its 1988 test of add-

(Continued on page 4)

Nichols to Trim 11 Money-Losing Units

NEW YORK — In a bid to restore profitability, S.E. Nichols will close eight money-losing stores in the next two months in North Carolina and Ohio.

The chain also intends to dispose of three other stores in order to shorten its lines of distribution and control. That would cut its store count to 30 from 41.

The money losers "have been a drain on our company," chairman Manfred Brecker said. "We're leaving the market in order to concentrate on core markets of New York, Pennsylvania, Virginia, Maryland as well as Delaware."

Nichols plans to exit North Carolina and Ohio so it can concentrate on core markets like New York, Pennsylvania, Virginia, Maryland and Delaware.

"We've had a couple of rough years," Brecker said, but the store closings should restore Nichols to profitability this year. He declined to disclose how large a reserve Nichols has established to cover closing costs but said he had factored the estimated chargeoff into his prediction for a profitable 1989.

About 400 to 600 employees will lose their jobs at Nichols' stores in New York; Philadelphia, Ohio; and Gastonia, Goldsboro, Greenville, Lumberton, New Bern, Rocky Mount, and Wilson, N.C.

(Continued on page 4)

It's All in the Cards

Discounters Get a Boost from Changing Shopping Patterns

NEW YORK — Discount stores' interest in courting the home office shopper comes on the heels of their tremendous success in wrapping up a major share of the greeting cards business.

"Today, mass retailers [including drug and food outlets] control 50 percent to 52 percent of the business," reported Tom Tisdale, vice president of marketing for Taylorville, Ill.-based Sangamon. "There has been a shift away from card shops."

With time at a premium, shoppers are picking up greeting cards at the same time they are shopping for other items in discount stores, suppliers said. To that end, discounters have broadened the mix. "The biggest news is the success of alternative cards," observed Pat Ziolkowski, stationery buyer at Hills Department Stores, Canton, Mass.

In line with that trend is Ambassador's "All Moms are Working Moms"—cards dealing with the trials and tribulations of being a mother.

Tisdale at Sangamon said his firm has cards addressing the three major greeting card trends. The company's alternative line—"Starry Night Press"—was recently expanded. The two other major groups Sangamon has identified as having great potential are people over 55 and those returning to more traditional values. A line called "The Best of Times" is aimed at the upwardly mobile older population; "Blessings of the Heart" are inspirational messages. For the 55-plus set, Ambassador has its "Young at Heart" offerings. Ambassador is also fine-tuning its fixturing for mass retailers. Its new invisible fixtures allow more cards to be displayed and its color cue system makes it easier to find each type of card.

Even more dynamic than card sales right now are sales of gift bags which can be used to "wrap" gifts. Chains such as K mart and Hills are adding more of the bags as well as coordinated ribbons. "The gift bags are the hottest new products," said Tisdale. He added that they are bringing in new customers rather than stealing from gift wrap.

"Many people, especially in dual-income families, don't take time to wrap packages," said Carlton Cards product manager Luke Eliadis. "The trend is toward convenience and alternative wraps. Buy a bag and some tissue and it's done." Alternative wraps are growing at an estimated rate of 15 percent to 25 percent.

The gift bags were first seen a few years ago at the National Stationery show, which will be held this year at the Javits Center on May 21 to 24. Although many mass market suppliers do not exhibit at the stationery show, some said they will walk the show looking for the next wave.

In the meantime, many in the industry are buzzing over rumors of a change of dates for the back-to-school show. Several said they wish it would be moved to November since most retailers complete back-to-school buying plans in October. Others favor the show in February because retailers come in force and attend both BTS and Toy Fair. Thalheim Expositions in Manhasset, N.Y., said the 1990 show will remain as slated—Feb. 10 to 12 at the Javits Center.

Stationery Business Goes to the Office

By Faye Brookman
Special to DSN
Nationwide DSN Report

When he is not on the road, Howard Shatinsky's commute to work consists of seven stair steps. That is all separating Shatinsky from his bedroom and his office in the basement of his home in Mansfield, Mass.

Shatinsky used to purchase file folders, staples, copy paper and tape at BJ's Wholesale Club before discovering a nearby Staples. Now he has noticed a better selection and the multiple packs of items he needs featured at the local discount store. Shatinsky said that might just be where he goes for his next purchase.

Shatinsky is not alone—about 62 million households in America now have dedicated some space to an office in their homes. It's no wonder that discounters such as Target, Wal-Mart, Hills, Ames as well as K mart are creating home office departments in space culled from social stationery—a category that has since fallen by the wayside as Americans shun the custom of writing letters.

"Retailers used to say they could take 16 items, they'd pick and choose," recalled Jim Schmidt II, assistant vice president, marketing for Kansas City, Mo.-based Stuart Hall Company. "Now they come and want full departments of home office products." Added 3M's Frank Sando, consumer group national account manager: "In the stationery department, home stationery is the buzz word . . . Discounters are really adding to home office departments."

It appears the burgeoning home office departments at discount stores are a reflection of consumer desires. According to one recent study, more customers want to find these items at a mass merchant. In a poll of 1,775 small businesses taken during the fourth quarter of 1988, only 9 percent said they last bought paper at a discount store (including specialty shops such as Staples). But, 14.3 percent indicated they would buy in a discount store in the future.

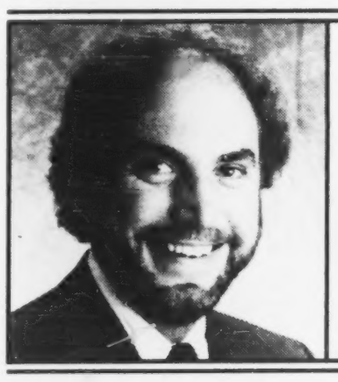
(Continued on page 33)

EDITORIAL

Target Sings New Song of Togetherness

And the music blared: "Oh say can you see who we are. Heart like a wheel, eyes of tomorrow. Oh say can you see what we see, feel what we feel, know what's in store . . . it's a miracle land, we're a miracle people. Taking our quest to be the best . . . Target, Across the USA."

And the second part of T-Day began. Target had already shuttled over 1,500 vendors and guests to its new prototype store in nearby Eagan from the Radisson Hotel South. Now, a Hollywood-style show was underway in the hotel's ballroom to be followed by an elaborate banquet. So far, I thought, it was a clever and entertaining way for the nation's third-largest discounter to tell its story. I was beginning to wonder, after having already talked to several executives at the store, if the tight-lipped Target was beginning to change its style.



TONY LISANTI
Editor

"We're here to celebrate the Target experience—buyer, vendor and customer," said chairman Bob Ulrich. "This get-together today is to let you know that we know just how important you [vendors] are to our company."

The music continued. "Say hello to the buyer . . . I got an upscale mind and a discount heart. We liken our work to the state of the art. Got an ego big enough to fill up a cart or a shelf or an aisle or a store. We're the home town buyer, trend prophesiers, never say diers for the company store."

Then someone mentioned everyday low prices. I thought, how can you be the "premier upscale discounter" and maintain an everyday low price strategy at the same time?

The music continued. The Jets, who were involved in a spring apparel promotion with Gitano, performed live. Shari Lewis was also there with Lambchop and Baby and a new children's photography promotion for Target.

Several suppliers told me that they had never participated in such an elaborate retailer/vendor event before. "This is truly a first class, unbelievable day," said one supplier.

The rap-style song tracing Target's history continued. "We finally got our wish again and strut on in to Michigan. Hello K mart, make my day, Target's here to stay. And now the Southeast comes on strong singing out the Target song. And if you allow a little boast, Target is now coast to coast."

So, I thought the only area Target has yet to penetrate is the Northeast. And, after talking with Ulrich and others, there's no apparent rush. The feeling is that it will happen eventually, but in the meantime there are a lot of markets the chain wants to fill in. Target has grown through acquisition—Fedmart, Gemco, Gold Circle—and if that pattern continues, I believe a likely target in the Northeast that has the upscale style is Caldor.

"Oh say can you see who we are..."

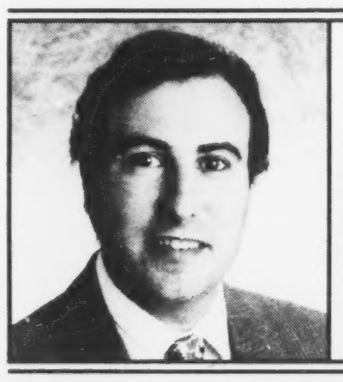
Yes, I think everyone who was there now has a better idea of who you are. And the feeling that night was that a lot of people like who you are, not the way you were. There's a new spirit at Target, and everyone hopes it continues.

BUYERS & SELLERS

Retailers, Vendors Need SPARC of Recognition

I had been a retail business editor for about six years before attending my first SPARC dinner. In that time, I had developed a good degree of skepticism toward the often self-serving comments of industry executives.

Such was the case two years ago as I prepared to videotape a series of interviews with retailers and manufacturers about the importance of the SPARC awards to their organizations. SPARC stands for Supplier Performance Awards by Retail Category. I expected them to say the usual things about the importance of building stronger relationships between retailers and vendors. But, I was unprepared for the genuine expression of emotion and urgency that these execs conveyed during the interviews, conducted prior to the start of the 10th annual dinner.



DON LONGO
Exec Editor

"Anytime you're judged in conjunction with your competitors by the community that you serve, in other words, the retailers, it's meaningful," said Bill Heitman, divisional vp for Cannon. "We, as vendors, like the recognition," added Charles Crane, vp, sales, Williamson-Dickie, "but the most outstanding aspect is the honor bestowed on the retailer." For over a decade, *DSN*'s Discounter of the Year award has been handed out at the SPARC banquet. Recent winners include K mart chairman Joseph Antonini and Wal-Mart ceo David Glass.

The enthusiasm for SPARC wasn't confined to the vendors. Award committee members like John Little, formerly of Rose's and now with Consolidated Stores, Joe Hatfield of Wal-Mart, Gene O'Donnell of Hills and Bill Rokoff of Makro were equally impressed with the stature of SPARC.

"More and more retailers see the benefits of participating in this type of event," said Rokoff. "By recognizing the industry leaders and what they have been able to achieve over a series of years, we are looking beyond the short term and recognizing long-term success," added O'Donnell, who is chairing the SPARC retailer committee for the second consecutive year. This year's 12th annual SPARC banquet—to be held Sunday evening, Aug. 13, at the Downtown Marriott, Chicago—promises to be even bigger and better than past year's.

Finalists in the 20 supplier award categories have not been released yet by the retailer committee, but an impressive list of successful retail executives are already vying for Discounter of the Year honors. If you have not already done so, turn to page 12 of *DSN*'s May 8 issue and cast your ballot for Discounter of the Year. The deadline for ballots is June 15.

WASHINGTON REPORT

RPM Makes Mockery of Fair Trade Principles

It's hard to believe, but we're closing in on the 14th anniversary of federal legislation that put an end to "Fair Trade"—a shabby, anti-consumer conspiracy to maintain resale prices and prevent the spread of discount stores.

The reason it's hard to believe that Fair Trade has been dead and buried since 1975 is that, in reality, these anti-competitive practices are flourishing in the marketplace.

KEN RANKIN

They were revived after the 1980 election by wrong-headed Reagan administration antitrusters and Orwellian "Chicago School" jurists who employ convoluted reasoning to "prove" that being forced to pay artificially high prices benefits the American public.

The result has already been a serious decline in competition at the retail level. If the trend continues, chains like K mart, Target and Wal-Mart may find it difficult to continue calling themselves "discount" stores.

Don't take my word for it, though. Here's what Ohio senator Howard Metzenbaum had to say on the subject:

"If manufacturers are able to control the price at which otherwise independent retailers are able to sell their products, consumer welfare will be directly harmed. Discount retailers would be subject to the control of their suppliers and would no longer have the independence to set prices and engage in healthy competition."

Metzenbaum has introduced legislation, S. 865, which would outlaw resale price maintenance conspiracies under federal antitrust laws.

Just as important, the bill would clarify the standards of evidence necessary to establish an RPM conspiracy in court—standards which were thoroughly scrambled by the Supreme Court in its two most recent RPM rulings.

Metzenbaum isn't alone in seeking these reforms. His bill has drawn strong bipartisan support from a score of Senate co-sponsors. However, this legislation won't go anywhere without active support from consumers and from the discount store industry. The next move is up to you.

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HOME OFFICE Merchandising

MAY 1989 SPECIAL SUPPLEMENT DISCOUNT STORE NEWS

(DSN photo)

Megastores Expand to Avoid SHAKEOUT

Rapid expansion is seen as vital to establishing the store base needed to weather the shakeout that is predicted for megastores

By Arthur Markowitz

Rapid expansion is the name of the game now being played out by the top companies in the discount office supply industry.

What's at stake for these chains is becoming one of the dominant, even surviving, players in the megastore segment of the exploding office supply field, whose overall sales this year are expected to reach $100 billion (at retail), up from about $95 billion.

Two related factors are behind these specialty retailers burgeoning growth to about a $1.5 billion business this year, more than double the $700 million in sales the segment's nucleus of 20 chains recorded last year. (Traditional office supply wholesalers accounted for about 75 percent of the overall industry's sales in the past, with small mom and pop stationery stores and other retailers for the remaining volume.)

For starters, fast growth attracts investors, at first venture capitalists to anchor a fledgling business, and later Wall Street when a chain decides to go public.

BizMart, O.P. Club, Office America, Office World and Staples were among the chains funded by venture capital groups. Last month, Montgomery Ward, recognizing the growth of the megastore business,

(Continued on page 22)

Expansion Continues

By using the warehouse format and the superstore concept, megastores dominate the office supply market

(Continued from page 19)

took a major equity position in Office World, while Staples became a publicly held company, joining Office Depot, Office Club and HQ Office Supplies. The latter, in fact, went public before opening any stores, obtaining Wall Street backing due to the financial community's romance with the concept pioneered by Staples three years ago.

At the same time, rapid expansion is seen as necessary to establish the extensive store base needed to weather the shakeout that executives predict will batter the megastores in the next two to five years.

The explosive growth undertaken by the top 20 chains will see more than 165 new megastores open this year, pushing the industry's count to over 365 units. This growth comes on top of about 100 new stores in 1988.

The spectacular development of the megastore industry takes place as chains, attempting to carve out distinct market niches, delineate their businesses into specific formats and pursue explicit expansion programs.

Providing small and medium-sized businesses with one-stop-shopping for their office supplies continues to be the core business for the megastores. The specific merchandising approach, however, takes one of two basic formats.

One method is the warehouse format, exemplified by Office Depot, which involves focusing operations on supplying businesses, using the warehouse environment—steel fixtures, concrete floors, bare ceilings—pioneered by membership warehouses. Some chains like Office Club even sell memberships, enabling cardholders to buy goods at 10 percent less than non-members.

The other approach is the superstore concept, which adds a number of traditional retailing features to the basic warehouse format. As typified by Office World, these include the greater use of gondolas, tiled floors, carpeting in the furniture area and even the marketing of consumer items to generate additional sales.

On the expansion front, chains are following one of two pathways.

The route followed by many chains calls for opening stores in a diverse array of markets. BizMart plans to grow from 10 stores in two states to 28 units in four states while Office Depot, currently with 26 stores in five Southeast and Central states, is set to add 29 more units and expand into four more states.

This plan has markedly heightened competition in the discount office supply field as chains enter each others' markets and battle for customers. Office Depot, for example, faces Jaffe's, WORKplace, Office America and BizMart, while the latter's competitors also include The Office Place, Office Club, Arvey, O.P. Club and Super City.

The other approach, used by smaller, local megastores like National Office Warehouse and The Office Place, is to add stores in current communities. The goal is to lock up current customers and thereby ward off any inroads by larger, multi-regional and national chains.

Office Supply Megastore Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Earnings (In Millions) 1988	Earnings (In Millions) 1987	Number of Stores 1/89	Number of Stores 1/88	Number of Stores 12/89**
Office Depot Boca Raton, Fla.	$132.0*	$ 33.7*	291.0%	$1.4	($2.3)	26	10	55
Staples Newton, Mass.	115.0*	39.7	189.7	NA	($2.3)	22	9	33
Arvey Paper & Office Products Chicago	100.0*	90.0*	11.1	NA	NA	36	34	40
Super City Tucson, Ariz.	100.0*	100.0*	0.0	NA	NA	16	17	16
Office Club Concord, Calif.	52.1	10.3	376.0	(3.3)	(2.6)	16	5	28
Jaffe's Miami	40.0*	15.0*	166.6	NA	NA	10	7	14
The Office Place Boulder, Colo.	25.0*	24.0*	4.2	NA	NA	6	5	15
WORKplace St. Petersburg, Fla.	25.0*	10.0*	150.0	NA	NA	6	2	12
BizMart Arlington, Texas	20.0*	—	—	NA	—	10	0	28
Office America Richmond, Va.	15.0*	2.0*	650.0	NA	NA	5	1	14
The Paper Cutter Liverpool, N.Y.	15.0*	12.0*	25.0	NA	NA	14	12	22
Action Indianapolis	11.0	7.0	57.1	NA	—	5	4	7
Office Shop Warehouse McKeesport, Pa.	10.0*	—	—	NA	—	6	0	6
O.P. Club Phoenix, Ariz.	10.0*	—	—	NA	—	6	0	15
Office World Great Neck, N.Y.	8.0*	—	—	NA	—	4	0	14
National Office Warehouse Columbus, Ohio	7.0	5.0	40.0	NA	—	3	2	8
OfficeMax Solon, Ohio	5.0*	—	—	NA	—	3	0	15
Office Square San Antonio, Texas	5.0*	—	—	NA	—	2	0	2
OW Office Warehouse Virginia Beach, Va.	5.0*	—	—	NA	—	2	0	14
HQ Office Supply Warehouse Long Beach, Calif.	—	—	—	—	--	0	0	10

*DSN estimate NA—not available **projection

Source: *DSN* research; company reports

Membership Warehouses Face the Fax of Business Services

By Richard C. Halverson

Warehouse clubs are venturing into the business service operations that office products chains offer to help snare additional customers.

Sam's Wholesale Club, for instance, is testing what it calls "Sam's Express Center" in its Southwest Freeway store south of Houston.

The center will print business cards, letterhead and envelopes, and emboss company names on standard business forms. It also offers fax and photocopy services as well as custom rubber stamps.

Sam's Express Center goes office product chains one better by serving as a drop-off for United Parcel Service and Airborne shipments.

(DSN photo)

HQ Office Supply, Culver City, Calif.: Signage spotlights business services offered.

Sam's levies a slight service charge for shipments, so the cost is a "bit more expensive" than shipping directly, a center employee said.

But for printing, "the center offers some of the lowest prices around, especially on business cards," the employee said. Citing a Sam's policy, he refused to quote prices over the phone.

Costco, the Kirkland, Wash., warehouse chain, confines its business services to a limited range of printing. Costco has operated a print shop in its Portland unit for four years and another in a Seattle-area unit for a year.

Now, it is considering opening print shops in San Francisco and Clearwater, Fla., by year-end, said president and chief executive officer Jim Sinegal. Costco will offer printing at just one warehouse club in each market, Sinegal said.

Costco offers only limited bindery services, such as folding and stapling, said Sheila Sweet, a press operator in the Portland Costco. "If you can work within the limits of the printing services we offer, the service is really reasonable," she said.

The print shops turn a profit, Sinegal said, even though rates are

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HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

Stationery Biz Goes to the Office

(Continued from page 3)

"That represents the largest growth by any type of outlet," claimed Ray Boggs, director of the small business market strategy service at BIS CAP International, the firm that conducted the study.

Moreover, figures from the National Office Products Association (NOPA) predict a bright future for the home office arena. Manufacturer shipments of office supplies—excluding furniture and office machines—totaled $13.3 billion in 1988 and should grow at an annual rate of 4.4 percent to over $14.5 billion by 1990.

A just released report from New York-based FIND/SVP suggests the home market is growing sharply because of the emergence of affordable electronic technology, demographic trends, corporate initiatives, changing lifestyles and related quality of life considerations.

Despite the impressive statistics, discounters have been quite leery of the home office category. What had to be determined was a profile of the discount home office shopper. The profile that has emerged is a consumer who holds down a full-time job, but also does work or attends to bills in a home office, as opposed to customers who generate most of their revenue at home. According to BIS CAP, at least 12 million households fit this mold. Serving these customers appears to be the discount store's niche.

"My customers are not those who use their home office as their primary place of business," said Hills stationery buyer Pat Ziolkowki. "My customers are two-income families who like to have an office just to be organized or have a place to keep files for paying bills."

Multi-pack benefits are enhanced profits and a higher price tag. Already a profitable area, home office goods yield in the 30 percent margin range.

Now that discounters have identified the customers they want to court, departments are being enlarged from small 4-foot sections to full-fledged 20-foot runs and more. "Home office is a growing area for us and we are devoting more space to it," said Bill Roberts, public relations manager at Ames. "Our best sellers include copy paper and multiple packs." The home office market is so vital to Ames that it has a separate division of office warehouse stores called Office Shop Warehouse. There are six of these outlets.

But sources at the office superstores and discounters are quick to point out they are not direct competitors. Staples vice president of marketing, Todd Krasnow, said the 24-store specialty chain targets small offices of one to 50 people. "We stay away from mass products and lines. You won't find mauve phone answering machines and you won't see a lot of trends in commodity items," he said. What can be found at Staples are bulk quantities and huge multiple packs.

Multiple packs, however, are also catching on at discount stores, but in reduced sizes from those available at home office warehouse stores.

"Home users would like to buy quantities and save money," said Brian Kest, marketing manager, home and office products for Mead Products. "But in a mass store they are not going to buy something so bulky that they can't carry it out with their other belongings."

Ziolkowski at Hills agrees that although there is a demand for grouped packs, there is a delicate balance to master. Multiple packages of 10 may be too much, but groups of three or five are often just right, she observed.

Sando at 3M cites Post-It Brand Notes as a prime example of a hot item that really sizzles as a multiple pack. The Post-Its are grouped in packs of anywhere from three to 24. According to John Cincotta, director of marketing for Sheaffer Eaton, the multiple pack frenzy has hit the writing instrument portion of the business, too.

The benefit of multiple packs, retailers add, is enhanced profits. They assume about the same amount of space as a single pack, but multiple packs carry a higher price tag. That is good news to an already profitable area with home office goods yielding margins in the 25 percent to 30 percent range.

Discounters are also squeezing greater profits out of the category by upgrading the mix. Cincotta has observed a willingness of customers to opt for more expensive pens and mechanical pencils (Sheaffer Eaton has products ranging from 99 cents to $500). And Krasnow at Staples said high-end writing items such as Cross Pens are gaining favor as people view them as not only an investment but as a great gift item. Another prime example is Stuart Hall's Executive Line of business pads which includes the Executive Project Planner, a pad with space created for page numbers, subject identification and room to write down follow-up actions. A testament to its success, he said, is that officials at Wal-Mart use the pads in meetings.

Manufacturers have injected fashion into the once mundane office supply category with splashy colors. Canary yellow remains the favorite choice of paper, but primary colors have been appearing in paper and Post-It notes have an offshoot by 3M called Creative Expressions with cute sayings and shapes.

With home office consumers buying all these new items and gadgets, it is only logical they need more storage aids. Several suppliers have come to the rescue with upscale offerings.

"The growth in home office is in storage—magazine files, hanging file folders and plastic magazine folders," responded Eric Buresch, national sales manager of Fellowes Manufacturing Company in Itasca, Ill. A few new items the firm is highlighting include a carry-all file, a two-year home file and multiple packs. Buresch said color is important in storage. Over the past few years, jewel tones have predominated, but are being supplanted by black, white and red, he said.

Design-A-Space Line

Rubbermaid Inc., a pioneer in the mass home office arena, has introduced new offerings in its Design-A-Space line. According to Linda Whyte of Rubbermaid, Design-A-Space is an office system that allows consumers to put an office together horizontally or vertically.

The new items include an in/out tray, two new wall pockets, a long-term file and a storage clipboard.

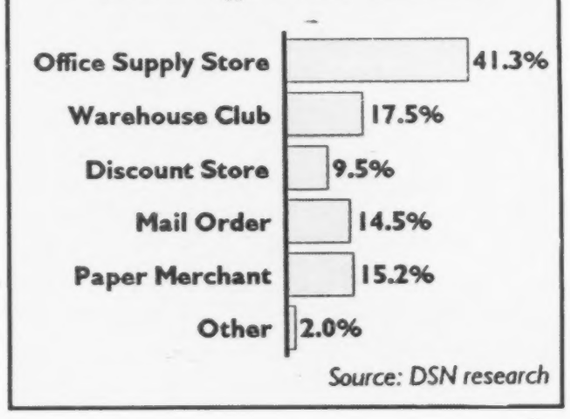
The increase in home offices also means an upturn in home mailing, according to Pat Macko of Cleveland-based Manco Inc., which manufacturers Care Mail and Cookie Box. The firm is also responding to the multiple pack craze by grouping its mailers in combination packs.

Office Products Market Potential

	1988 (In Billions)	1990 (In Billions)	Annual Growth 1988-1990
Office Supplies	$13.37	$14.56	4.4%
Wood Furniture	1.89	2.19	—
Non-Wood Furniture	5.99	7.05	—
Furniture Subtotal	7.88	9.24	8.3
Office Machines	9.49	10.04	2.9

Source: National Office Products Association

Where Consumers Last Bought Home Office Merchandise



Source: DSN research

MARKETWATCH

1Q Earnings Dip

CARSON, Calif. — Pic 'N' Save disclosed that first quarter earnings will fall 15 percent to 20 percent below last year's $7 million, or 18 cents a share, because of high expansion costs. The chain opened or acquired 35 stores last year, including 25 in the fourth quarter of 1988, and associated expenses will drive down first quarter earnings, the company said. William M. Jacobs Jr., senior vice president and chief financial officer, said the firm plans to open 25 to 30 more stores this year. The chain operates 162 stores with the Pic 'N' Save name in the West and South and Odd Lot Pushcart name in Metropolitan New York.

Trak Falls Off Track

LANDOVER, Md. — Net profits of Trak Auto fell 40 percent in the year ended Jan. 31, 1989, on a sales increase of 14.6 percent, chairman Herbert H. Haft announced. Net income fell to $2.8 million, equal to 47 cents a share, from $4.7 million and 78 cents a share a year earlier. Sales rose to $243.1 million from $212.2 million in 1987. Trak declined either to release operating profits or explain the reason for the decline in net income. Trak runs 285 stores, a gain from 251 stores last year.

New Display at Show

CHICAGO — The National Hardware Show this year will feature a new display section, "Technology Showcase," where computer and software makers can display their wares in a special section. So far, 15 vendors have signed on for the special section. The show runs from Aug. 13 through Aug. 16 in Chicago's McCormick Place.

Sports Shipments Up

NORTH PALM BEACH, Fla. — The wholesale value of sporting goods shipped during 1988 rose 7.7 percent to $39.8 billion, the Sporting Goods Manufacturers Association estimated. The total included: $8.9 billion for equipment shipments; $8.2 billion for apparel; $6.9 billion for footwear; and $15.8 billion for transport. In equipment, golf represented the largest share, $1.2 billion, with firearms and hunting trailing at $1 billion.

Lionel Toys with POP

NEW YORK — POP (Point of Purchase) Radio landed 84 of Lionel Leisure's toy stores as clients for its in-store ad service. The service combines music from Muzak with promotional announcements and vendor ads in a mock radio broadcast format. Since 1986, Toys "R" Us, whose format uses the call letters, WTRU, has been a toy chain client of POP. Lionel operates stores under the Kiddie City and Playworld chain names, plus two chains under the Toy Warehouse name.

Upbeat Target Celebrates 'Togetherness' with Suppliers

(Continued from page 1)
partnership we enjoy with one another that allows all of us to celebrate the Target experience."

Said Warren Feldberg, executive vice president, merchandising, "Our mission is to be the premier upscale discounter, not the pretty-good or the me-too discounter."

Target, which spared no expense to wine, dine and entertain its guests, also used the occasion to showcase its new prototype store in the nearby suburb of Eagan, and celebrate the opening of 30 former Gold Circle stores throughout the Southeast.

The event was themed "Across the USA," touting the fact that Target's 379 stores now stretch from coast to coast. Only the highly competitive, but potentially lucrative, Northeast remains elusive to Target.

With 379 stores, Target projects that it will reach 400 stores in 31 states by year-end, adding over $1 billion in sales.

'There is room for 100 Target stores in the Southeast," said Jack Fontaine, senior vice president, property development. "The region has the volume potential of $2 billion-plus by 1995." Fontaine also pointed out that Ohio and Illinois, which are key states for expansion in 1990s, can support 100 stores. He said that Target will continue to pursue acquisitions as a tool for growth.

Target could have well over 500 stores and sales of $10 billion by 1992, according to analysts' projections.

Ulrich said that while Target is "optimistic" about its new everyday low price format, which was implemented in its 30 Southeastern stores, there is no immediate plan to adopt the policy chainwide.

Dozens of vendors admitted they were "totally impressed" with the day-long program and had never been part of such an elaborate retailer/vendor program.

The two-hour show featured an update of the chain, a history of its growth, and new marketing strategy. Presentations by Target executives were intermingled with songs and live performances from the Jets, The Judds, Shari Lewis and Will Steger.

Target also announced a new holiday promotion based on the Velveteen Rabbit, which will be featured in a Christmas stocking.

In addition to its aggressive marketing programs and new prototype, other key developments include:

- A total of eight regional distribution centers by mid-1990 which will process 85 percent of its merchandise. This includes the opening of a new DC in Tifton, Ga., in 1990 and the expansion of facilities in Los Angeles and Little Rock, Ark., this year;
- The implementation of satellite communications between headquarters, stores and DCs this fall;
- The test of a scanning system that automatically deactivates the EAS tags;
- Quick response program to improve in-stocks.

Auchan to Clothe Chicago's Hypermarket by End of Year

(Continued from page 1)
store when it is expanded to 160,000 square feet.

Auchan's goal is to become an American, rather than a foreign, retailer in its U.S. operations, Jacques Marcelin, president and ceo of the Auchan Group and chairman of its American subsidiary, O'Field, told *DSN*.

"We came to the U.S. to become an American company and we certainly need time for this," he said, adding that "six years is the time in which to make a decision on further expanding within the U.S."

David Skinner, general manager of the Bridgeview store, said Auchan would basically draw shoppers within a three to five mile radius, with some customers coming from as far as 10 miles. The store's core trading area of about 88 square miles is home to about 210,000 people.

Its immediate competition includes a Venture, co-anchor in the Bridgeview Court Shopping Center, a K mart across the street, and nearby Zayre and Warehouse Club stores. The broad range of other retailers within the trading market is exemplified by Sears Ltd., Montgomery Ward, Service Merchandise, Fretters, Office World and Phar-Mor Pharmacy. Supermarkets include two major Chicago area chains, Jewel Food and Dominick's, and independent operators.

Auchan researched the Chicago market for over a year, using a market research firm to survey what consumers wanted and shopped competitors to ascertain what was actually being sold. This information was used to determine the store's mix and the price points of its 40,000 sku's.

The assortment breaks down to approximately 70 percent food and 30 percent non-food (and is expected to swing to about a 60-40 ratio when apparel is added). Food takes up about two-thirds of the approximate 80,000 square feet of selling space.

Skinner explained that Auchan has gained experience in the food business through its parent's operation of a franchised Cub Foods unit in Joliet, Ill., for almost four years.

"We took a pragmatic approach as we knew the grocery business but we hadn't learned the non-food business," Skinner said. "We decided to focus on hard lines to develop professionalism in that area before moving on to apparel."

The proposed apparel section will be added to the front right side of the store which now houses the sporting goods department. The physical extension will result in a slight reconfiguration of that area of the store, including extending the checkout section which now contains 36 lanes.

Auchan executives declined to comment on expected sales, gross margins or profits beyond noting the parent company, through its Houston and Chicago ventures, had made a long-term commitment to the American market.

Skinner said trade projections of $1 million a week in sales at Bridgeview "aren't unreasonable." He expected food to account for about 80 percent of the store's volume and non-foods 20 percent, with general merchandise capturing a larger share when apparel is added.

Auchan expects to be profitable by adjusting its mix to focus sales on higher-margin categories. "There is a margin in non-food different from grocery and there is a margin in perishables different than dry groceries," Skinner said.

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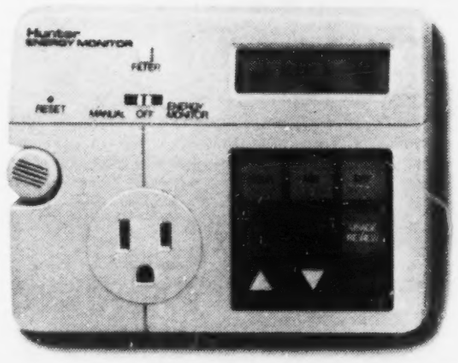

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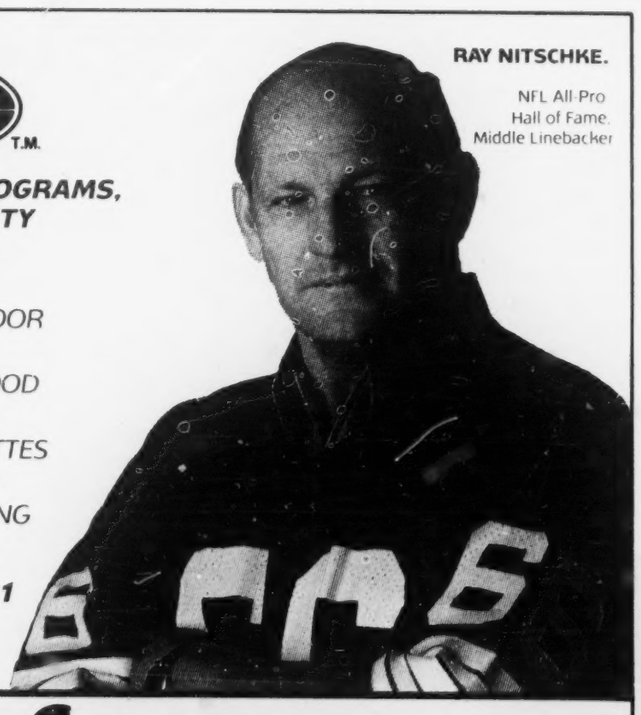

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